

# **City of Lynchburg**

*Special Review*

*Juvenile Services Other Pay*

**December 20, 2005**

**Prepared by the Internal Audit Department**

Report on Special Review  
Juvenile Services  
Payroll – Other Pay  
December 20, 2005

## **Background**

An employee working as a Community Organizer in the Juvenile Services Division of Human Services was overpaid approximately \$14,000.00 during the period of 6/10/04 through 7/21/05. She had been asked to split her regular work schedule (40-hour work week) between her primary job and the “Single Point of Entry” program at the Crossroad House.

Each pay period, the employee entered the hours worked at Crossroad House and the department code at the bottom of the “Exempt Employee Leave Form”. This form is used in Human Services for exempt employees to report time worked outside of a primary position and to report leave hours used during the pay period. In August, 2005, it was discovered that the hours worked at Crossroad House were paid as if they were overtime hours and coded to the “Other Pay” category in the payroll system.

Additionally, when the employee began this schedule, her FLSA (Fair Labor Standard Act) status was exempt; however, the status was changed to non-exempt effective September 8, 2004. Non-exempt employees are required to complete a time sheet, recording hours worked each day. However, once she became non-exempt, this employee continued to use the same exempt method of reporting and did not complete non-exempt timesheets.

This review was requested by the Deputy City Manager to determine why the overpayment was not detected earlier and what could have been done to prevent it.

## **Scope of Work**

Our review included interviewing employees within the Juvenile Services Division. We spoke with the division’s payroll clerk, the approval manager and the employee’s primary supervisor. We also talked with City Human Resources personnel to gain an understanding of the requirements for splitting employee hours and the Financial Services Operations Manager to better understand the payroll system. In addition, we reviewed support documentation for the payroll entries which created the overpayments to the employee.

The audit was conducted in accordance with professional internal auditing and generally accepted governmental auditing standards specified in the City's Internal Audit Charter and, accordingly, included such tests of records and other audit procedures as were considered necessary in the circumstances.

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The Internal Audit Department is free from organizational impairments to independence in our reporting as defined by government auditing standards. We report directly to an audit committee and, administratively to the city manager and are organizationally outside the staff or line management function of the areas we audit.

## **Opinion On Internal Controls**

The objectives of a system of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are properly recorded.

It is our opinion that the weakness of supervisory controls and inadequate communication of changes in the employee's personnel status were the basic factors allowing the ongoing overpayment of the employee.

## **Observations**

### **I. No Human Resources Approval For Changes in Funding**

The employee's supervisor did not contact Human Resources regarding the request to split hours between two programs within Juvenile Services. It is our understanding that a request for changes in funding should be submitted for Human Resources approval. This request should also be signed by the employee's Department Director.

In order to ensure that payroll entries are properly posted, special funding arrangements should be approved by Human Resources. In this case, had Human Resources been aware of the change, the overpayment may have been prevented.

### **II. Change Not Communicated to Payroll Clerk**

The Juvenile Services payroll clerk was not informed that the employee's hours would be split between two departments. She received a call from the supervisor at Crossroad House who wanted to know how to report the hours the employee worked, but it was not mentioned that the hours were part of the normal 40-hour weekly work schedule. When the clerk received the form reporting hours worked and leave taken, the hours worked at Crossroad House were noted in a blank area on the form beneath the total of regular hours. Therefore, the hours appeared to be worked in excess of the normal schedule and were paid as extra hours at the employee's exempt hourly rate.

Payroll Clerks need to be given information on any change in an employee's status or work schedule that will affect the recording of payroll. Since the overpayment was discovered, the Financial Systems Administrator for Human Services implemented a "Personal Services Checklist" that must be completed for each current and new

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employee. These forms are sent to the payroll clerk. As changes occur, a revised form must be submitted showing the change. If a form is not received, the information from the prior payroll will continue unchanged.

III. Hours Recorded on Leave Form

Exempt employees within Juvenile Services use the “Exempt Employee Leave Form” to record additional hours worked, or hours worked in a different program than their normal assignment. The form contains lines for the different types of leave and the dates the leave was taken. The leave hours are deducted from the 80 hours for each pay period to determine the total number of regular hours worked. As noted above, this form was used by the employee to show the hours worked at Crossroad House.

This form is not designed to address additional hours worked or hours worked outside an employee’s regularly assigned position. Additionally, a form which is titled “leave form” should not be used for anything but leave hours. Although the “Personal Services Checklist” has been implemented, there is still no specific form for exempt employees to report changes in hours and/or payroll codes.

IV. Lack of Approval By Secondary Supervisor

The hours reported by the employee for work performed at Crossroad House were not reviewed and approved by the appropriate person at that location. Instead, the employee’s primary supervisor initialed the “Exempt Employee Leave Form”, thereby approving all hours reported.

In order to ensure accuracy of the hours reported, the supervisor under whom the employee is working should review and approve the hours prior to being submitted to the payroll clerk.

V. Employee’s Status Not Communicated to Payroll Clerk

The change in status for the employee from exempt to non-exempt was not communicated to the departmental payroll clerk or the departmental payroll approval manager. Human Resources sent a letter regarding the status change to the employee and copied the Director of Juvenile Services. Notice of the change was also given to the employee’s supervisor and the Human Resources Specialist for Human Services. The payroll clerk received a list of status changes for the employees in the Division of Social Services; however, no notice was forwarded to the clerk for Juvenile Services employees.

When the employee’s status changed to non-exempt, she continued to report hours on the form used for exempt employees. Under the Fair Labor Standards Act, a non-exempt employee must record the hours worked each day to ensure that overtime is paid at time and a half for hours worked over forty during a week. There is a specific timesheet used

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for non-exempt City employees to report their hours; however, once the employee's status changed, there is no evidence that she was told to report her hours on a different form. Additionally, her supervisor was not aware that non-exempt employees are required to complete a different timesheet. If the correct timesheet had been completed, the payroll clerk would have known the actual number of hours worked.

VI. Inefficiency in Approval Process

The payroll approval manager for Human Services is responsible for approving pay for over 180 employees. The employees are often working outside of the Human Services building during regular hours and work additional hours in the evenings and on weekends. It is impossible for this manager to know the legitimacy of the reported hours and he must depend on the approval of the immediate supervisors.

Current practice requires supervisors to initial the forms submitted to the payroll clerk, whether on an "Exempt Employee Leave Form" or a "Non-Exempt Timesheet".

## **Suggestions and Management's Responses**

Suggestion #1:

Require that supervisors receive approval from Human Resources and the Department Director before allowing an employee to split hours between payroll codes.

*Management's Response:*

*Supervisors will be required to submit a formal request to the Department Director and Human Resources to update the payroll system when an employee's pay is funded through two or more payroll codes, even if they are within the same budget. This will be communicated to supervisors in an upcoming training session. The training will be completed by January 31, 2006.*

Suggestion #2:

Ensure that payroll clerks receive all information on work area and status changes. The "Personal Services Checklist" implemented by the Financial Administrator in Human Services is a good tool to ensure this practice.

*Management's Response:*

*The "Personal Services Checklist" has been implemented for the Department of Juvenile Services and is working well. The tool ensures that payroll clerks receive all necessary information in a timely fashion.*

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Suggestion #3:

Discontinue using the “Exempt Employee Leave Form” to report additional hours worked or hours worked in another payroll code. Require exempt employees to record hours worked in a non-exempt position on a non-exempt time sheet and design a form for exempt employees to report hours worked in another exempt position in another payroll code.

*Management’s Response:*

*Exempt employees are not eligible to accumulate additional hours, therefore should not be recording additional hours on any form. If an exempt employee is working a part-time position in a non-exempt position, those hours would be recorded on the non-exempt form. In addition, there are situations when current employees receive lump sum payments for being “on-call” or completing work outside their normal responsibilities. In those cases, appropriate documentation for the payments will be attached to the employees’ leave form for processing through the payroll system. This information will be communicated to supervisors and payroll clerks in an upcoming training session. The training will be completed by January 31, 2006.*

Suggestion #4:

Require secondary supervisors to approve the hours an employee works for them and forward an email to the payroll clerk indicating the number of hours that should be on the timesheet. The timesheet should be signed by both the employee and the supervisor and forwarded to the payroll clerk.

*Management’s Response:*

*Currently, timesheets are signed by the secondary supervisor and the employee as well as initialed by the primary supervisor. Beginning in September staff began requiring the secondary supervisor to e-mail the number of hours worked to the payroll clerks.*

Suggestion 5:

Consider changing the letter sent from Human Resources informing employees of their FLSA status change to include the requirement for reporting payroll hours.

*Management’s Response:*

*The FLSA changes referred to in this audit were the result of a City-wide review of the FLSA designation of all positions due to Department of Labor regulatory*

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*changes. Human Resources does not anticipate a need to regularly review filled positions for FLSA status as the reviews are normally completed when a job is vacant. In the event that a filled position is changed from exempt to non-exempt or non-exempt to exempt, Human Resources will include information about the appropriate method for reporting time worked and leave taken.*

Suggestion #6:

Consider dividing the Human Services payroll into sub-departments for the approval process. At this level, the approval managers should be more likely to detect unusual entries.

*Management's Response:*

*Preliminary discussion has taken place to discuss and decide the most feasible way of dividing the payroll approval process for the Departments of Social Services and Juvenile Services. Future discussions will include representatives from the Finance Department. A decision will be made by December 31, 2005.*

Suggestion #7:

Organize training for employees in supervisory positions who review and approve payroll timesheets to ensure they are aware of personnel and payroll requirements and laws.

*Management's Response:*

*Training for Juvenile Services supervisors and those who approve payroll will be coordinated with the Finance and Human Resources Departments with the goal of completing the training by January 31, 2006.*

## Other Comments

We appreciate the assistance we received from employees within Juvenile Services, Human Resources and Financial Services during this review. We are available to discuss this report should there be questions or concerns.

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